UNION TRACTION—P. R. T.

RESULT OF NEGOTIATIONS

Re

PROPOSED $6,000,000 CAR TRUST

AUGUST 16, 1920

PHILADELPHIA RAPID TRANSIT COMPANY

EXECUTIVE OFFICES

1035 LAND TITLE BUILDING

T. E. MITTEN,
CHAIRMAN, EXECUTIVE COMMITTEE

Philadelphia, August 10, 1920.

Mr. J. J. Sullivan, Sr.,
Chairman, Board of Directors,
Union Traction Company of Philadelphia.

Dear Sir:

In 1912 it seemed advisable that I should become a Director of the Union Traction Company as you, President of Union, were a Director of P. R. T. My purpose in serving as a Director of Union was to assist in accomplishing such a joint organization of Union and P. R. T. as would inure to their joint benefit and open a way to provide the necessary funds to improve transit facilities in the way of needed extensions, etc.

The suggestions I have made from time to time to effect this purpose culminated in a conservative and carefully prepared plan of reorganization of the relations of the Companies and their respective obligations. This plan, which I believe would have gone far towards solving the difficult situation of the transit problem, met with such opposition from certain dominant interests that its adoption was made impossible. A copy of this plan is attached hereto, though its important features have heretofore been communicated to and discussed by the members of your Board, and met with the informal approval of most.

I am not, and never have been, in sympathy with Union's policy of exacting P. R. T.'s equities as the price of Union's consent when required to secure additional capital to be spent upon the leased property; but, on the contrary, have repeatedly stated to your Board my belief that Union's stability depended largely upon Union's strengthening its lessee, P. R. T.

Union's latest demand that, as the price of its consent to the proposed $6,000,000 Car Trust, P. R. T. shall give to Union every equity that P. R. T. now possesses, and in addition agree to make over to Union all property which P. R. T. may hereafter acquire, is both unreasonable and destructive.

I do not relinquish the hope that Union may yet see that its own, as well as the interests of the public and of P. R. T., will be best served by the adoption of a different spirit toward the transit problem—a spirit to which the accompanying plan is a tentative effort to give formulated expression. Nevertheless, my now continuing to act as a Director of Union would be embarrassing, and I therefore desire to make my resignation, herewith tendered, effective forthwith.

Respectfully yours,

T. E. MITTEN.

PHILADELPHIA RAPID TRANSIT COMPANY

1520 SPRUCE STREET

OFFICE OF VICE PRESIDENT
ACCOUNTING AND FINANCE

PHILADELPHIA, June 22, 1920.

T. E. Mitten, Esq.,
President.

The draft of agreement with Union Traction Company in the matter of the proposed Equipment Trust Series "F" transmitted to them in your letter of May 20th was not acceptable to that Company, because it did not carry out the provisions of the resolution passed by their Board on May 7th stipulating the terms upon which Union Traction assent would be given to the proposed consolidated equipment trust.

Union, whenever granting its consent to the financial measures advocated by P. R. T., frankly states it to be its policy to exact everything that P. R. T. can give. Union, as consideration for its guarantee of the $10,000,000 P. R. T. bond issue of 1912, demanded and received from the old management the following:

All equity in Market Street Elevated represented by	
A—Entire Issue of Capital Stock	$2,800,000
B—Due bills for advances	8,178,824
C—Assignment of Claims for future advances—approximately	3,000,000
D—Leasehold	
All equity in	
Doylestown & Willow Grove Railway	500,000
Darby & Yeadon Street Railway	5,000
Snyder Avenue Passenger Railway	140,000

Now, in 1920, when application is made for the consolidation of certain equipment trusts, Union, as a condition precedent to its consent, requires that all ownership and equities of P. R. T. in cars, real estate and stocks and bonds of subsidiary companies shall be transferred to Union as follows:

1—Motor Real Estate Co. Property—cost	$4,000,000
2—P. R. T. real estate—cost	600,000
3—500 Near-side cars—now under Equipment Trust "C"—cost	2,500,000
4—Willow Grove Park Co.—stock	219,500
5—Chester & Philadelphia Ry. Co.—stock	247,350
6—Darby & Yeadon Street Railway Co.—bonds	200,000
7—Philadelphia & Willow Grove St. Ry. Co.—bonds	100,000
8—Darby, Media & Chester St. Ry. Co.—bonds	126,000
9—Continental Passenger Railway Co.—stock	4,000

10—Also that P. R. T. now agrees to transfer all real estate and securities hereafter acquired.

Only in consideration of the transfer of the above equities, will Union give its assent to the issuance by P. R. T. of the proposed consolidated equipment trust; of which $2,635,000 would be used to refund car trust certificates now outstanding; the remaining $3,365,000 to be used on properties held under lease from Union.

Respectfully,
W. C. DUNBAR,
Vice-President.

PHILADELPHIA RAPID TRANSIT COMPANY

EXECUTIVE OFFICES

1035 LAND TITLE BUILDING

T. E. MITTEN,
CHAIRMAN, EXECUTIVE COMMITTEE

PHILADELPHIA, May 20, 1920.

The Union Traction Company of Philadelphia,
Philadelphia, Pa.

Gentlemen:

We have received the resolution of the Board of Directors of the Union Traction Company of Philadelphia, dated May 7, 1920, setting forth the terms upon which you are willing to agree to the placing of certain equipment now under P. R. T. Equipment Trusts, Series "A," "B," and "C," as well as certain other equipment not now under any lease, in a new consolidated and extended lease. The conditions which you propose refer generally to four classes of assets belonging to the P. R. T.: (A) real estate held either in the name of the Motor Real Estate Company or of the P. R. T.; (B) 500 near-side cars now under Equipment Trust "C"; (C) stocks of subsidiary companies; and (D) bonds of subsidiary companies.

The real estate referred to has all been acquired by the P. R. T. since 1902. It did not form part of the leased system and the interest of Union in it at the present time is such as arises out of Sections 18 and 21 of the Lease of 1902. P. R. T. is, however, willing to have the shares of the Motor Real Estate Company held subject to the provisions of Section 12 of the Lease of 1902 in exactly the same manner as the shares of the Real Estate Holding Company are now held, thus anticipating and making definite whatever rights Union might have to this stock at the termination of the Lease of 1902.

P. R. T. is willing to transfer into the name of Motor Real Estate Company the properties now owned by the P. R. T. with the exception of the property on Beach Street below Fairmount Avenue, negotiations for the sale of which to the City of Philadelphia for a substation site of the Frankford Elevated are now under way.

P. R. T. is willing that the 500 near-side cars now in series "C" shall, subject to the provisions of Car Trust "F," become the property of Union in the same manner as the cars now in Series "B" by virtue of the agreement of March 1, 1913.

P. R. T. did in 1912 transfer to Union the capital stock of the following companies * * * *

Market Street Elevated Passenger Railway	$2,800,000
Doylestown & Willow Grove Railway	500,000
Darby & Yeadon Street Railway	5,000
Snyder Avenue Passenger Railway	140,000

These transfers being made by P. R. T. in consideration of Union guaranteeing the 1912 Issue of $10,000,000 Fifty Year 5% Sinking Fund Gold Bonds.

P. R. T. is also willing that the stock of the Companies which the P. R. T. may hereafter incorporate as extensions to the lines of Union's system of street railways, shall be held under the provisions of Section 13 of the Lease of 1902.

The Willow Grove Park Company and the Chester and Philadelphia Railway Company, however, present a somewhat different condition of affairs.

The Willow Grove Park Company has a capital stock issue of $908,300 of which $688,800 is in the name of Union and represents all of the property existent at the time of the Lease of 1902. The remaining amount of stock, $219,500 represents, in effect, net earnings which, otherwise available for P. R. T. dividends, have been invested in additional property at Willow Grove Park. As a general rearrangement with the present

concessionaires at Willow Grove Park is under consideration, looking toward the acquisition of the property now owned by them, it would appear to be in Union's interest to do nothing in this matter of stock division which would militate against P. R. T.'s willingness to invest some considerable portion of its net earnings in additional property at Willow Grove Park. If Union so desires, its present holdings, representing its original property, $688,800, could by appropriate action be made preferred, both as to principal and dividends, as against added investment later made by the P. R. T.

The Chester and Philadelphia Railway Company stock was acquired by the P. R. T. as consideration of its undertaking the operation of that line for the comparatively short term of 30 years from 1911 and not for a long term coincident with leases of the other properties comprised in the system. The Chester and Philadelphia is in itself a separate property and capable of independent operation. We therefore feel that this stock should be retained by P. R. T. in order to more readily permit the negotiation of any modification or extension of the present operating agreement.

The bonds of the Darby and Yeadon, Philadelphia and Willow Grove, and Darby, Media and Chester Street Railway Companies have been acquired by the P. R. T. with its own funds since 1902. These bonds represent a substantial equity which is of potential value in any future financing and the same is true of any bonds issued by similar companies which the P. R. T. might hereafter acquire. These bonds, together with the 80 shares of Continental Passenger Railway stock acquired by this company after the 1902 Lease, should be retained in order that they may be available for the development and improvement of the property which P. R. T. holds under lease from Union.

Summarizing, P. R. T. submits that in consideration of Union assenting to the proposed $6,000,000 Equipment Trust Loan, P. R. T. will now make over to Union the ownership of real estate and stocks of subsidiary companies to the same effect as if Union had leased them to the P. R. T. under the provisions of Sections 12 and 13, of the Lease of 1902. P. R. T. will agree that the 500 cars purchased since 1902 shall be considered as if turned over and included under the terms of that lease. P. R. T. desires to retain its present position of stock ownership insofar as the Chester and Philadelphia Railway Company is concerned, and for reasons given, deems it in the interest of both Union and P. R. T. that the relation of the two companies in connection with the stock ownership of the Willow Grove Park Company remain unchanged. The ownership of the bonds of the underlying companies, as well as the stock of the Continental Passenger Railway Company, must be reserved to the P. R. T. to assist it in providing the moneys required in the further development and improvement of the property held by P. R. T. under lease from Union.

In reply to your letter of May 10th, would say that the Philadelphia Rapid Transit Company has not, directly or indirectly, aided in any attack on the rentals paid to its underlying companies and that while assured of the continued co-operation of Union Traction Company, it is the intention of the Philadelphia Rapid Transit Company to fully observe its obligations under the Lease of July 1, 1902.

Very truly yours,

T. E. MITTEN,

President.

UNION TRACTION COMPANY

OF PHILADELPHIA

GENERAL OFFICE

433 LAND TITLE BUILDING

PHILADELPHIA, May 10, 1920.

Mr. T. E. Mitten, President,
Philadelphia Rapid Transit Company,
1520 Spruce Street, Philadelphia.

Dear Sir:—

In view of the persistent rumors that the Philadelphia Rapid Transit Company is aiding or at least is in sympathy with the attacks upon the rentals of its underlying companies, we write to ask if you will not contradict these rumors.

We would like to know also if the Philadelphia Rapid Transit Company has any intention of trying in any way to cut down the rentals payable to this company under the lease of July 1, 1902, or would in any way aid or sympathize with any such attempt to reduce the rentals so payable to this company.

Yours very truly
J. J. SULLIVAN,
President.

RESOLUTION OF THE BOARD OF DIRECTORS OF THE UNION TRACTION COMPANY, MAY 7, 1920, SETTING FORTH CONDITIONS UNDER WHICH CONSENT WOULD BE GIVEN TO THE CREATION OF THE PROPOSED $6,000,000 CAR TRUST

BE IT RESOLVED that this Company's assent be, and the same is hereby given, to the following transactions which have been proposed for this Company's assent by Philadelphia Rapid Transit Company:

1. The consolidation and the extension for ten years of the Philadelphia Rapid Transit Company equipment trust leases, Series A, Series B and Series C, as well as the enlargement thereof by bringing under the terms of the proposed consolidated lease eighteen near-side cars which are not now under any lease.

2. The sale and delivery of the rolling stock which is to be the subject-matter of the proposed consolidated lease and the taking of a lease of all the said rolling stock by Philadelphia Rapid Transit Company as the basis for an issue of not more than $6,000,000, 7% equipment trust certificates.

3. The release by Union Traction Company of Philadelphia of any lien on or interest in all the above mentioned rolling stock which Union Traction Company of Philadelphia may have.

AND BE IT RESOLVED that the officers of this Company are hereby authorized in this Company's name and on its behalf to execute and deliver all such contracts, releases, bills of sale and other documents that, in the said officers' judgment may be necessary, desirable or proper to carry out these resolutions, or any of them.

All of the foregoing is subject to the following conditions:

1. Before the above recited resolutions shall take effect, a contract shall be entered into between this Company and Philadelphia Rapid Transit Company in form satisfactory to this Company's counsel, in order to protect this Company's interests in the premises, including the reversionary rights in the rolling stock above mentioned, subject to the aforesaid consolidated lease and to the lease made by this Company to the Philadelphia Rapid Transit Company under date of July 1, 1902.

2. All the securities issued and outstanding under the existing Philadelphia Rapid Transit Company equipment trust issue Series A, Series B and Series C, shall be liquidated out of the proceeds of the sale of the proposed consolidated car trust issue.

3. The money raised by the issue of the consolidated equipment trust certificates shall be applied only to retiring the said outstanding equipment trust certificates heretofore issued under Series A, B and C and to capital expenditures of Philadelphia Rapid Transit Company. Philadelphia Rapid Transit Company shall render to the Union Traction Company of Philadelphia quarterly reports of capital expenditures out of the said fund and the Union Traction Company of Philadelphia shall have the right to verify such reports from the books of the Philadelphia Rapid Transit Company.

4. All of the interest of Philadelphia Rapid Transit Company in all the shares of stock of Motor Real Estate Company shall be transferred at once to Union Traction Company of Philadelphia, subject only to the existing rights of the United States Housing Corporation, with which Philadelphia Rapid Transit Company has hypothecated the said shares, and Philadelphia Rapid Transit Company shall agree with Union Traction Company of Philadelphia fully and punctually to discharge its obligations in connection with the said hypothecation, and not to permit any additional lien, charge or encumbrance to be put or remain thereon, and upon freeing such shares to deliver the certificates therefor to Union Traction Company of Philadelphia with appropriate powers of attorney so that the same shall become the sole property of Union Traction Company of Philadelphia and be registered in its name and so that possession of the certificates therefor shall be retained by Union Traction Company of Philadelphia. Except as otherwise herein provided, the said shares of Motor Real Estate Company shall be held upon the same terms and conditions as the shares of Real Estate Holding Company are to be held under the terms of Clause 12 of this Company's contract with Philadelphia Rapid Transit Company dated July 1, 1902, and under the terms of these resolutions so far as they provide for the voting of the shares of Real Estate Holding Company.

5. PHILADELPHIA RAPID TRANSIT COMPANY SHALL AGREE THAT ALL REAL ESTATE HERETOFORE ACQUIRED AND NOW HELD OR CONTROLLED BY IT, AS WELL AS ALL REAL ESTATE HEREAFTER TO BE ACQUIRED OR CONTROLLED BY IT, SHALL BE CONVEYED AT ONCE TO REAL ESTATE HOLDING COMPANY (IF NOT ALREADY SO CONVEYED) AND THAT THE SHARES OF STOCK OF REAL ESTATE HOLDING COMPANY SHALL NOT AT ANY TIME HEREAFTER BE VOTED TO AUTHORIZE THE SALE, THE MORTGAGING OR THE PUTTING OF ANY LIEN OR CLAIM

on or against any of the real estate now or hereafter standing in the said Company's name except with the consent of Union Traction Company of Philadelphia, duly expressed by a resolution of its Board of Directors.

6. Philadelphia Rapid Transit Company shall at once assign and transfer to this Company all the shares of stock that Philadelphia Rapid Transit Company owns or controls in the Willow Grove Park Company, the Chester and Philadelphia Railway Company, the Continental Passenger Railway Company and in any other companies in which it may now or hereafter own or control any shares of stock, all of which shares of stock shall become this Company's property and shall be held subject to all the terms of Clause 13 of the contract between this Company and Philadelphia Rapid Transit Company dated July 1, 1902.

7. Philadelphia Rapid Transit Company shall at once assign and transfer to this Company all the bonds of other companies which it owns or controls or which it may acquire or control hereafter, including those issued by the Darby & Yeadon Street Railway Company, the Philadelphia & Willow Grove Street Railway Company and the Darby, Media & Chester Street Railway Company. All the said bonds shall be delivered to this Company and held by it. The said bonds shall become this Company's property but, during the continuance of this Company's lease to Philadelphia Rapid Transit Company under the contract between the said Companies dated July 1, 1902, the income therefrom shall be paid by this Company to Philadelphia Rapid Transit Company. The possession of the said bonds shall be held by this Company.

8. A list of all the stocks, bonds and real estate at present owned or controlled by Philadelphia Rapid Transit Company shall be given to this Company before the execution of the above mentioned contract, and all transfers of such property hereby provided for shall be made simultaneously with the execution of the said contract.

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PROPOSED PLAN OF CONSOLIDATION

OF THE FIVE LEASE-HOLDING COMPANIES

Philadelphia Rapid Transit Company
Union Traction Company
Philadelphia Traction Company
Electric Traction Company
Peoples Traction Company

1919-1920

PROPOSED PLAN OF CONSOLIDATION

OF THE FIVE LEASE-HOLDING COMPANIES

Philadelphia Rapid Transit Company
Union Traction Company
Philadelphia Traction Company
Electric Traction Company
Peoples Traction Company

into one operating company; transmuting the stocks and other securities of these companies into the stock of the new company, so as to maintain present preference as to assets and dividends of the respective companies; while the return paid represents only a reasonable return on paid in value.

The fixed charges of the new company would at the outset approximate $5,000,000, as against the present charge of nearly $10,000,000 per annum.

Credit is at once established by this change, and the way opened to a further consolidation and the issuance of a general first mortgage and refunding bond issue, by which the stocks and bonds of underlying companies could be retired and the capital needs of the operating company provided for.

Federal excess profits taxes, now paid on account of these companies, and representing a considerable addition to operating costs, would, under this plan, be entirely eliminated, as would also the costs of maintaining the corporate organizations of the several companies.

The carrying out of this plan would greatly facilitate economy of operation, in that the operating company would have a free hand to operate the several lines of the system to the best interests of the business for all concerned, including the public.

PROPOSED NEW COMPANY UNDER CONSOLIDATION PLAN

CAPITALIZATION AND RETURN

Stock of New Company		Dividends Rate	Dividends Amount	Capital Paid in	Surplus
Peoples Traction Electric Traction	1st Preferred *$14,865,057	8%	$1,189,204.56	$6,000,000 8,297.920	— —
Philadelphia Traction	1st Preferred 20,000,000	8%	1,600,000.00	20,000,000	$486,220
Total 1st Preferred Stock	$34,865,057		$2,789,204.56		
Union Traction	2nd Preferred 30,000,000	7%	2,100,000.00	10,500,000	3,753,141
$10 per share assessment				6,000,000	
Philadelphia Rapid Transit Common 600,000 Shares	No Par Value	$2.50 a Share	1,500,000.00	30,000,000	4,482,120
	$64,865,057		$6,389,204.56	$80,797,920	$8,721,481

Total paid in Capital and Surplus	$89,519,401
Preferred Stock of New Company	64,865,057
Equity of Common Stock (for P. R. T.=$41.09 per Share)	$24,654,344

NOTE

8% on $89,519,401 Capital and Surplus allowed before Federal Tax is	$7,161,552.08
Dividends on Stocks of all five Companies would only be	6,389,204.56
Leaving Additional Earnings permitted before Federal Tax applies of	$772,347.52

*Takes the place of $29,730,114 E. & P. 4's.

SOME REASONS WHY THE UNION TRACTION CO. SHOULD CO-OPERATE IN THE PROPOSED PLAN WITH P. R. T.

1. The general street railway situation in the United States is so bad that the P. R. T. Co., which stands out distinguished by its success, is entitled to confidence in its management and every proper assistance from those affected by its success. It is only necessary to recall the situation in Boston, San Francisco, Chicago, Kansas City, St. Louis, New York, Buffalo, Pittsburgh and Brooklyn to realize the truth of this assertion. In Pittsburgh the first mortgage bond holders are not receiving their interest and in Brooklyn after 25 years of control the holding companies have been swept aside and the 28 different lines returned to their owners.

2. Two things that are essential to the continued successful operation of the Philadelphia street railway system are the elimination of unnecessary and very heavy taxes due to its peculiar organization; and facility of operation in that the operating company may have a free hand to run the lines of the system according to the best interests of the business for all concerned, including the public. The proposed plan would in a large measure accomplish this.

3. The Union Traction Co. has been, and while in its present financial position always will be, the object of attack on account of the so-called "water" in its stock. An attack on one part of the system in the minds of the public is an attack on the whole system.

4. Union Traction stockholders by paying $10.00 a share and exchanging their present certificates for the 7% par $50.00 full paid cumulative preferred stock of the new company would get credit for $32.50 and receive the same $3.00 per share dividends they are now getting, plus an additional 50 cents a share, making $3.50 per share per annum.

5. Union Traction, under this plan, would be full paid and its $30,000,000 stock have assets back of it of $54,735,261 (the combined Union and P. R. T. paid in capital and surplus), or over $91.00 a share as against less than the $24.00 a share today represented by the paid in capital and surplus of Union alone.

6. The money paid in by Union Traction stockholders could be used in the repurchase of P. R. T. 50-year bonds of the 1912 issue, which are guaranteed by Union Traction and come ahead of dividends upon Union Traction stock. These bonds when redeemed would go into the treasury of the new company and be available for issuance to secure new capital.

7. Considering the plan as a whole the following figures are of interest; the total capital and surplus of all five companies, including $6,000,000 to be paid in by Union Traction, is $89,579,401. P. R. T. contributes $34,482,120 to this fund or almost 40% whereas its dividends which come last of all amount to less than 25% of the total dividends. Union Traction, including the assessment, will only contribute $20,253,141 or 23% of the total assets but will draw preferred dividends of $2,100,000 a year or about 30% of the total dividends.

8. Union Traction stock would be preferred as to assets and dividends before the P. R. T. stockholders received anything and Union Traction's position would also be strengthened by the agreement between the operating company and the City of Philadelphia as well as by the money invested in the street railway business by the city.

9. Purchasers of Union Traction who paid $40 a share or less for their stock and paid an assessment of $10.00 a share, would receive 7% or more interest on their money.

Those who paid $50.00 a share for their stock and who pay an assessment of $10.00 a share, so that their stock costs them $60.00 a share would, with 7% on $50.00 par, receive interest on their money at a rate of 5 5/6% or almost 6%.

Those stockholders who paid $60.00 a share and who pay an assessment of $10.00 a share, so that their stock costs them $70.00 a share would, with 7% on $50.00 par, receive interest on their money at a rate of 5%.

As the highest price of record for Union Traction stock is $64 5/8 a share and as the stock has sold below $20.00 a share, it would appear from the above figures, that under the proposed plan the majority of the stockholders, even after paying the $10.00 assessment, will receive an income on their actual investment of over 6%, some stockholders will receive over 8% and even the few stockholders who purchased at the top figure will receive a fair rate of interest on their money considering the fact that they will, in future, have a guaranteed full paid preferred stock.

10. In every business today the middleman has to prove his right to exist. The Public Service Commissions are coming to scan closely all unnecessary corporate expense in public utility operation, claiming it is an unjustifiable burden on the public. A consolidation of P. R. T. and Union Traction would be a step in the right direction along this line.

11. With the consolidation of P. R. T. and Union Traction on a basis fair and satisfactory to the stockholders of both companies and the public, the way would be paved for other consolidations among the underlying companies, which would result in still further economies and be of great benefit to the operating company and the whole system both now and in the future.

12. The position Union Traction holds is very similar to that of the P. R. T., namely: control by lease of many underlying street railway companies. The lease of both companies is virtually an improvement lease; P. R. T. stockholders, however, have paid in $50.00 a share on their stock while Union Traction stockholders have paid in only $17.50 a share on their stock.

13. All the lease holding companies, namely: P. R. T., Union Traction, Philadelphia Traction, Electric Traction and Peoples Traction, would do well to bear in mind that, as their existence is dependent on leases, so the value of those leases is dependent on the ability of the company operating the physical properties to make them profitable. This applies with equal force to all of the above five companies and in fact unless an individual property is such that the real owner of that particular property can see clearly that he can operate his own property on a paying basis, in case it were returned to him, it is equally to his interest to see that the operating lessee is successful and to assist his lessee by every means in his power.

SOME REASONS WHY THE PHILA. TRACTION CO. SHOULD ALSO CO-OPERATE WITH UNION TRACTION AND WITH P. R. T.

1. Philadelphia Traction by uniting with Union Traction and P. R. T. could retain its preferred position as against those two companies both as to assets and dividends, and its stockholders would receive its present income return. At the same time it would very largely contribute to the strength and flexibility of the combined company and be of assistance toward operating economy.

2. Philadelphia Traction would by this action give up two guarantees, namely: that of Union Traction and P. R. T., yet the recent developments in Brooklyn and in Pittsburgh show that when the operating company falls down, any other lease-holding companies standing between the operating company and the real owners of the different properties of the system receive scant consideration.

3. Philadelphia Traction, except for the ownership of some pledged securities, is a lease-holding company controlling about one-half of the Philadelphia street railways. Supposing the Philadelphia Traction Company could prevent the entire disintegration of the present system, and that the underlying companies controlled by the Philadelphia Traction were turned over to the Philadelphia Traction Company to manage. The Philadelphia Traction would then face the following situation: No working capital. Its treasury stocks representing about 20% of its capital tied up as collateral for the P. R. T. 5% bonds of 1957. No rolling stock. No car barns convenient to its lines without crossing lines of other companies. Power houses and other equipment still to be arranged for. Virtually out of business since 1895, an entire operating management would have to be organized and the question of labor provided for. The loss of the 1907 agreement would have to be taken into consideration, etc.

4. Philadelphia Traction at present as a company is independent of Electric Traction and Peoples Traction but if Philadelphia Traction joins with P. R. T. and Union Traction it becomes a guarantor of the interest going to these two companies that are now represented by $29,730,114 of E. & P. 4's. This is correct unless Electric Traction and Peoples Traction also unite with P. R. T. and Union Traction. If, however, Philadelphia Traction as an independent operating company could not succeed, its independent position as to Electric Traction and Peoples Traction has little, if any, value and if by giving up this independent position, Philadelphia Traction can make the continuance of its present leasehold and dividends more secure, it would seem to be good business to exchange a position of theoretical value for one of real intrinsic value.

5. Philadelphia Traction, Electric Traction and Peoples Traction were all leased by Union Traction for 999 years. This lease has only run for 25 years or 1/40 of its term and yet already some of the various lines of these three companies have been abandoned in part. With the building of the city's subway and elevated lines, the lines of these three companies will become more and more dependent on the entire system for earnings and of correspondingly less value as individual properties or small groups of properties.

6. All the lease-holding companies namely: P. R. T., Union Traction, Philadelphia Traction, Electric Traction and Peoples Traction would do well to bear in mind that as their existence is dependent on leases, so the value of those leases is dependent on the ability of the company operating the physical properties to make them profitable. This applies with equal force to all of the above five companies and in fact unless an individual property is such that the real owner of that particular property can see clearly that he can operate his own property on a paying basis, in case it were returned to him, it is equally to his interest to see that the operating lessee is successful and to assist his lessee by every means in his power.